



Viffa Consult



# SME Development

How to make Special Economic zones work for Kenyan SMEs in Manufacturing

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## Acronyms

- SEZ** - Special economic zone
- SME** - Small medium size enterprise
- FDI** - Foreign Direct Investment





## Introduction

The Government of Kenya through Vision 2030 and subsequent medium term plans have continued to prioritize manufacturing with the aim of scaling up operations, protect local industries and increase the sectors GDP contribution.

Special attention has been put on the development of special economic zones (SEZ) such as :Dongo Kundu SEZ in the coastal region and Miwani SEZ in Kisumu with the goal of catalyzing local industrial activities and unlock value hence create employment.

Similarly, under big four agenda, the government of Kenya has prioritized the leather sector due to its huge potential supported by a large livestock population sufficient to sustain demand for supply of raw hides and skins for a robust leather and leather products manufacturing industry.

This has been done through:

- 1.Establishment of the Kenya National Leather Development Policy that espouses to provide a roadmap for the transformation of the leather sector.
- 2.Provision of tax incentives with the goal of making locally produced products competitive in the export markets.
- 3.Improvement of infrastructure at Kinanie Leather Industrial Park, development of Athi river textile hub and Leather Development Centre in Kisumu.

To appreciate the potential of SEZ and correctly apply an optimal model that leads to significant socio economic transformation, Kenya needs to evaluate two SEZ development models of China and Vietnam.

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## China SEZ Approach



China has in the past 50 years risen to become a leading manufacturer of goods and shifted the global landscape for manufacturing competitiveness

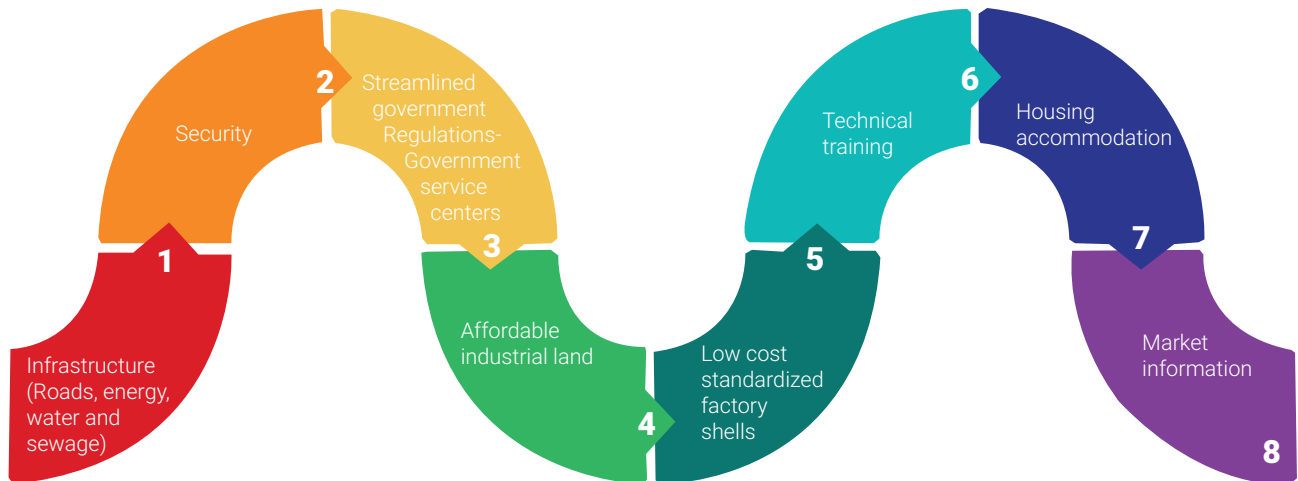
China has been able to develop its manufacturing industries through two major approaches;

1.Establishment of coastal special economic zones to attract export driven foreign direct investment (FDI) as well as testing grounds for reforms

2.Development of SME SEZ eco system

China central government played a critical role in SEZ development by establishing a conducive policy and legislative framework with sub national administration units such as provinces and counties replicating the same model of establishing local SEZ underpinned on potential for increased revenue from tax and sale of land.

The industrial zones in China helped SMEs most of whom were family led to global manufactures. The SEZ provided the following:



The establishment of these SEZ reduced startup capital requirement of SMEs and they were able to grow based on market forces of demand supply with government playing a critical role in providing market intelligence that informed product development.

Further SMEs within the SEZ organized themselves into specialized clusters thereby harnessing the value of economies of scale and creating unmatched value as an SEZ rather than competing amongst themselves for market.

The SEZ in China were financed by:

1.local governments who secured credit facilities from banks with SEZ acting as collateral and repayment from incremental tax revenue due to increased economic activities in the SEZ

2.Private sector developers who charged rent to SMEs {This is a plug and play model similar to co working space where SMEs simply plug and play}

## Vietnam SEZ Approach



Vietnam in contrast to China didn't develop SME centered SEZ but focused on FDI supported SEZ to develop its manufacturing mainly for export market.

This approach was successful in attracting FDI but failed to fully maximize value to its economy due to lack of backward linkages to local SME manufactures who remain small



## Lessons for Kenya in SEZ Development

With China and Vietnam among others emerging economies upgrading to high tech manufacturing, Kenya among other African countries must grasp the opportunity in low-technology, labor intensive light manufacturing sectors and enter the global manufacturing supply chain.

## State of play of SME manufacturing

### MSME Manufactures

Manufacturing sub sector in Kenya is distributed as follows:



Textile and apparel



Food products and milling operations

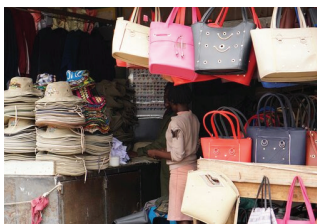


Fabricated metal products



Furniture

Kenyan MSMEs currently manufacture in informal clusters and organized under both registered and unregistered associations. Some key clusters that align to the above sub sectors in Kenya are:



Uhuru Market  
Textile Market



Kariokor Leather  
market



Kariobangi Light  
Industries



Shauri Moyo and Ngong  
Road Furniture market

# MSME Manufacturing support

There are various stakeholders in Kenya that provide manufacturing support to SMEs. Some of the stakeholders are:



## Organization



**Kenya Industrial Estates Ltd**

**Fungua Viwanda**

Financing Micro, Small and Medium Industries Countrywide



## Service Offered

KIE provides serviced workspace through construction of industrial estates/incubators in fast growing business centres. These facilities provide entrepreneurs with specific services to nurture and encourage growth of their enterprises to sustainable levels. Apart from flexible and affordable workspace, the enterprises within the incubators are able to access financial support for machinery, equipment and working capital, shared utility services, management and technical assistance including skills upgrading, marketing, accounting, legal, secretarial services and internet and networking.



## Location

<https://www.kie.co.ke/index.php/products-and-services/industrial-estates-development-a-incubation>



## Organization



**KIRDI**

Your Industrial Technology Partner...



## Service Offered

Under the common manufacturing facilities KIRDI provides facilities for MSME's to process their products. Common manufacturing facilities are offered in the following areas;

- Food Technology
- Chemical Engineering
- Leather Processing Technology
- Engineering Development and Service Centre
- Textile Technology
- Ceramics & Building Materials



## Location

<https://kirdi.go.ke/index.php/msme-support/common-manufacturing-facilities>



## Organization



## Service Offered

MSEA has the following SME programs

- Provision of worksite for SME development
- Capacity Building
- Facilitate MSE access to market



## Location

<https://msea.go.ke/provision-of-worksites-for-mse-development/>



## Organization



## Service Offered

The EPZA SME Development program aims to nurture SME exporters with the majority local Kenyan shareholding desiring to set up under the EPZA program. It targets SMEs from the Horticulture/food processing, Textile/apparel, Leather, Commercial crafts, BPO, and ICT sectors.



## Location

<https://epzakenya.com/epz-program/>



## Organization



## Service Offered

NMC is a public company incorporated on 4th January 1994 and is under the Ministry of Industry, Trade and Cooperatives.

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### Location

<https://nmc.go.ke/about-the-company/>



### Organization

#### Gearbox



### Service Offered

Gearbox is located in Nairobi's industrial area and offers Training, co-location and Tech support



### Location

<http://www.gearbox.co.ke/co-locatio>



### Organization



### Service Offered

SME development offers value added services to growth oriented and market ready manufacturing SMEs.

The Hub seeks to address the challenges affecting SMEs in the country including unfriendly policies and regulatory regime, tedious and lengthy process in quality standards and certifications, access to markets, access to affordable finance and poor governance structures



### Location

<https://kam.co.ke/sme-development/>



## What's the best SEZ deployment approach?

We have seen that although establishment of FDI led SEZ as in Vietnam and even in Kenya through EPZ; the approach doesn't create significant value to socio economic development due to lack of linkages with local SME ecosystems.

The approach Kenya should take should be to an eco-system approach as is the case of China. Having chosen the eco system approach; Kenya must recognize and document the baseline state of SMEs manufacturing and map out a clear process of transitioning to the ideal SEZ model.

All the mentioned SME manufacturing stakeholders must work together rather than in silos to offer the following value based on their core competencies:

1. Infrastructure (Roads, energy, water and sewage)
2. Security
3. Streamlined government Regulations-Government service centers
4. Affordable industrial land
5. low cost standardized factory shells
6. Technical training
7. Housing accommodation
8. Market information

## Short Term Action

Rather than shift to new SEZ; the Kenyan government can recognize and support the current informal industrial zones together with other stakeholders as a first hence improve on:

1. Product Quality through collaboration with Kenya Bureau of standards on best practice, TVET sub sector, MSEA, KIE to access technology and equipment
2. Technical skills through collaboration with National Industrial Training Institute (NITA), Kenya National Qualification Authority (KNQA)

3. Market access and Intelligence through collaboration with Kenya Export Promotion and Branding Agency (KEPROBA), Kenya Trade Network Agency (KENTRADE) as well as Kenya Private sector alliance (KEPSA), Kenya Association of Manufactures (KAM) and Kenya National Chamber of commerce and Industry (KNCCI) among others

## Medium to Long Term

For Kenya to be globally competitive it must align all its internal mechanisms for supporting manufacturing in country. The implication of this borrowing from the China model is as follows:

1. Availing market information to key markets eg United Kingdom (UK), United States (US), East Africa (EAC), Africa continental trade area among others. Prioritizing these markets based on Kenya's competitive edge and building synergic SEZ clusters to satisfy the identified markets
2. Streamline business regulations ensuring government services are available efficiently and are cost effective
3. Mapping of potential SEZ location based on competitive advantage relative to identified market. For example, Leather based SEZ in North Eastern based counties.
4. Allow flexible financing of SEZ in Kenya. As was the case in China, counties could borrow from financing institutions and repay using incremental taxes, private sector players were incentivized to invest in plug and play SEZ
5. Mainstreaming informal manufacturer workers into national training and skills building framework so as to enable them further build capacity.

## References

Kenya National Bureau of statistic MSME Report 2016

National Treasury and planning strategic plan 2019-2022-  
<https://www.treasury.go.ke/strategic-plan/>

World Bank- <https://blogs.worldbank.org/developmenttalk/chinas-secret-weapon-in-light-manufacturing-small-and-medium-enterprise-oriented-plug-and-play-indus> (Accessed 17th April 2021)

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